

## Chapter 10 Economy Overview

The following chapter gives an overview of the Northern Territory economy. It provides a summary and forecasts of economic growth, followed by an overview of the structure of the economy, the Territory population, labour market, prices and wages, and various industries and sectors within the economy.

The chapter is linked to the *Northern Territory Economy* budget-related paper (where more details can be found) and its structure is not intended to be indicative of the relative importance of the various industries or sectors within the economy.

### Economic Growth

Economic growth in the Northern Territory tends to be volatile from year to year. The small size of the economy means large, typically resource-based projects can have a substantial impact on investment and income streams.

The Territory economy grew by 6 per cent in 2004-05, with strong growth in consumption and investment boosted by major projects.

In 2005-06, gross state product (GSP) grew by 7.5 per cent with strengthening consumption, and a substantial increase in business investment associated with major resource projects, along with the commencement of liquefied natural gas (LNG) exports.

The major influence on estimated GSP growth of 7.2 per cent in 2006-07 is strong export activity, along with a significant decline in imports. Peak production of LNG, and at the Bayu-Undan fields (gas, condensate and liquid petroleum gas), with increased alumina production from Alcan, are the major contributors to growth.

Economic growth is forecast to continue in 2007-08 with growth of 3.7 per cent. Business investment levels will return to more usual levels as the Alcan expansion is completed. Exports are expected to stabilise as peak production is reached.

Table 10.1: Summary of Territory Economic Indicators

	2002-03	2003-04	2004-05	2005-06	2006-07e	2007-08f
	% ch	% ch	% ch	% ch	% ch	% ch
Real GSP	0.2	0.2	6.0	7.5	7.2	3.7
Resident Employment	-0.1	-2.2	-2.0	4.0	4.4	2.3
Population <sup>1</sup>	0.1	0.3	1.2	2.0	1.6	1.4
Darwin CPI <sup>2</sup>	2.2	2.1	1.6	2.6	4.4	3.0

e: estimate; f: forecast

1 As at December, annual percentage change (compares latest quarter with the same quarter in previous year).

2 As at December, year on year percentage change (compares latest 12 months to previous 12 months).

Source: ABS Cat. Nos 6202.0, 3101.0, 6401.0, 5220.0 and NT Treasury.

## Structure of the Economy

The Northern Territory economy is markedly different to other Australian jurisdictions. It has an abundance of natural resources, a large public sector and a significant defence presence.

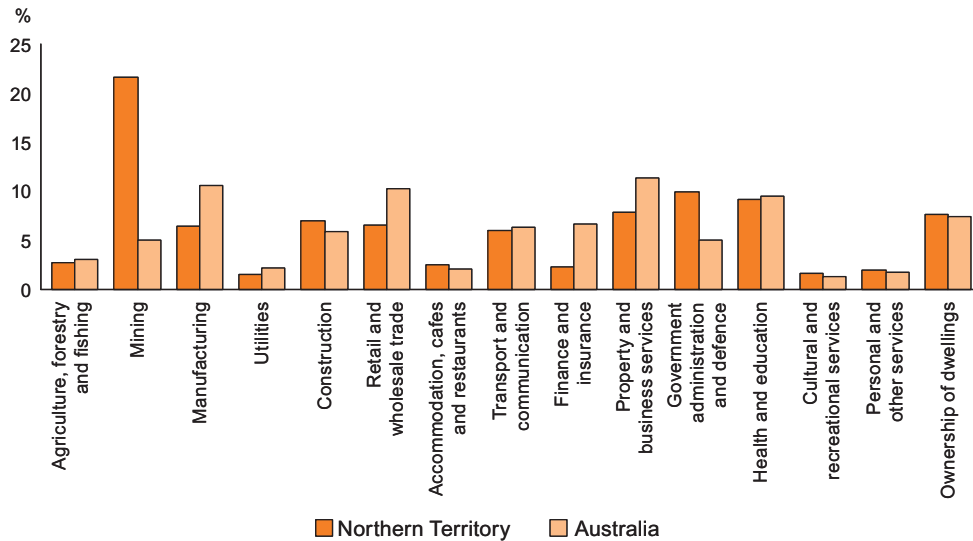
The Territory economy is highly influenced by global economic conditions due to its relatively small size and commodity-focused base.

A relatively large mineral and energy sector means that the Territory economy is capable of high growth as resources are developed. The recent and near completion of a number of major infrastructure projects will result in significant increases in mining and mining-related production over the next few years.

The manufacturing base has increased with the LNG plant at Wickham Point commencing production in February 2006, and will increase further when the Alcan G3 expansion is completed in the first half of 2007.

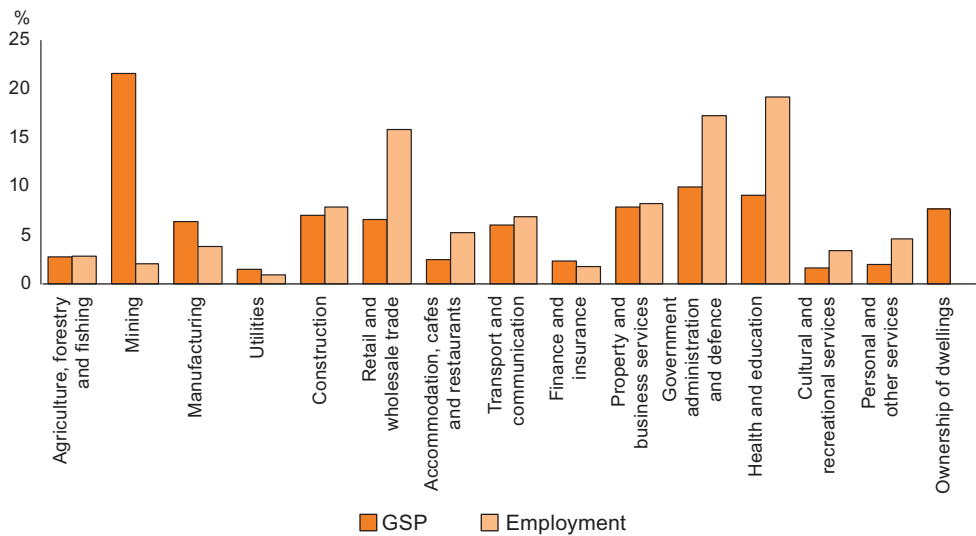
The mining industry is a relatively small employer, despite its contribution to GDP. The health and education sector is the largest employer in the Territory, followed by government administration and defence, and retail and wholesale trade.

Chart 10.1: Industry Proportion of GSP and GDP, 2001-02 to 2005-06 (five year average)



Source: ABS Cat. No. 5220.0.

Chart 10.2: Territory Employment and GSP Proportions, 2001-02 to 2005-06 (five year average)



Source: ABS Cat. Nos. 5220.0, 6291.0.55.003.

## Population

The Northern Territory is sparsely settled, with a relatively young and highly urbanised population. A far higher proportion of the Territory's population is Indigenous (29 per cent) than in other jurisdictions.

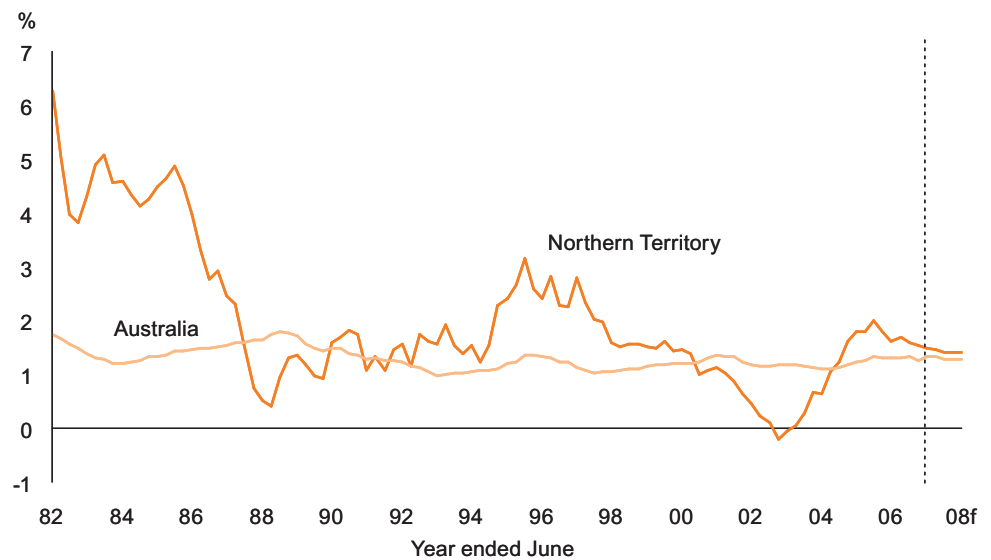
Natural increase (births minus deaths) contributes more to total growth in the Territory than in other jurisdictions, averaging 1.4 percentage points compared to 0.6 percentage points nationally. This is in part due to high rates of Indigenous fertility in the Territory.

Interstate migration is the most variable component of population growth. After contributing strongly to population growth in 2005, interstate migration returned to more typical patterns in 2006-07. Growth in 2006 remains strong at an estimated 1.6 per cent, after stronger than expected growth of 2 per cent in 2005.

Population growth of 1.4 per cent per annum is forecast for 2007 and 2008.

An accurate estimate of population is of critical importance to the Territory as Australian Bureau of Statistics population estimates are used by the Australian Government to apportion goods and services tax (GST) revenues, a substantial portion of Territory total revenue.

Chart 10.3: Annual Population Growth



f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 3101.0.

## Labour Market

The Territory labour market continues to strengthen in 2006-07 as buoyant onshore economic conditions prevail.

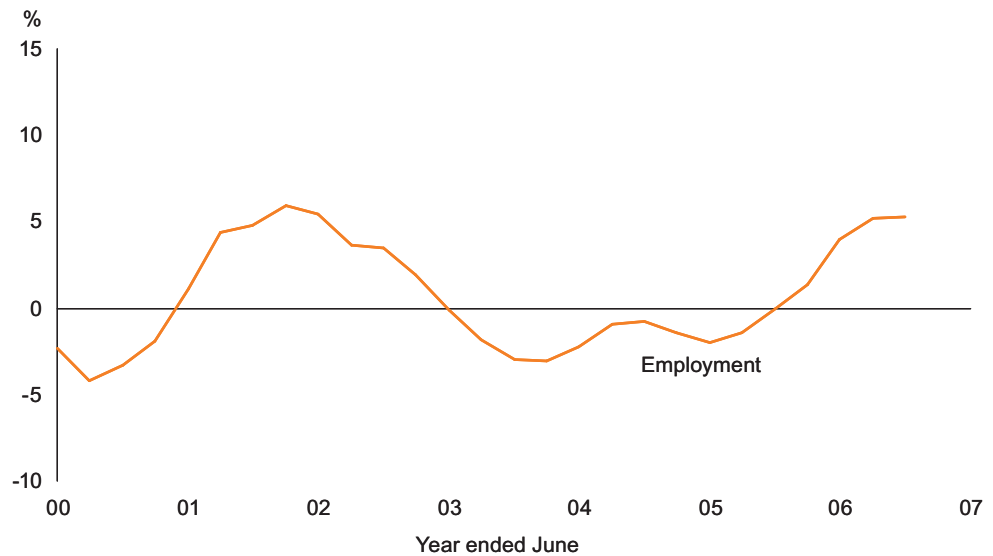
Following an increase of 4.0 per cent in 2005-06, as reported by the ABS, resident employment is expected to increase by 4.4 per cent in 2006-07. The unemployment rate fell from 6.3 per cent in 2004-05 to 5.7 per cent in 2005-06 and an estimated 3.5 per cent in 2006-07.

Labour market statistics and related indicators point to strong employment growth and a shortage of skilled labour in 2006-07, which is expected to continue into 2007-08.

Resident employment growth of 2.3 per cent is forecast for 2007-08, supported by ongoing construction work on the Darwin Waterfront Development, residential construction and engineering projects such as the condensate processing facility and the Blacktip gas pipeline.

ABS-reported employment data does not include defence personnel or fly-in fly-out workers and as such does not capture all types of employment in the Territory. Even more importantly, ABS employment data for the Territory is subject to very high levels of volatility and must be interpreted and considered in conjunction with a range of other economic indicators.

Chart 10.4: Territory Employment Growth (year on year)



Source: Northern Territory Treasury, ABS Cat. Nos. 5206.0, 6202.0.

## Prices and Wages

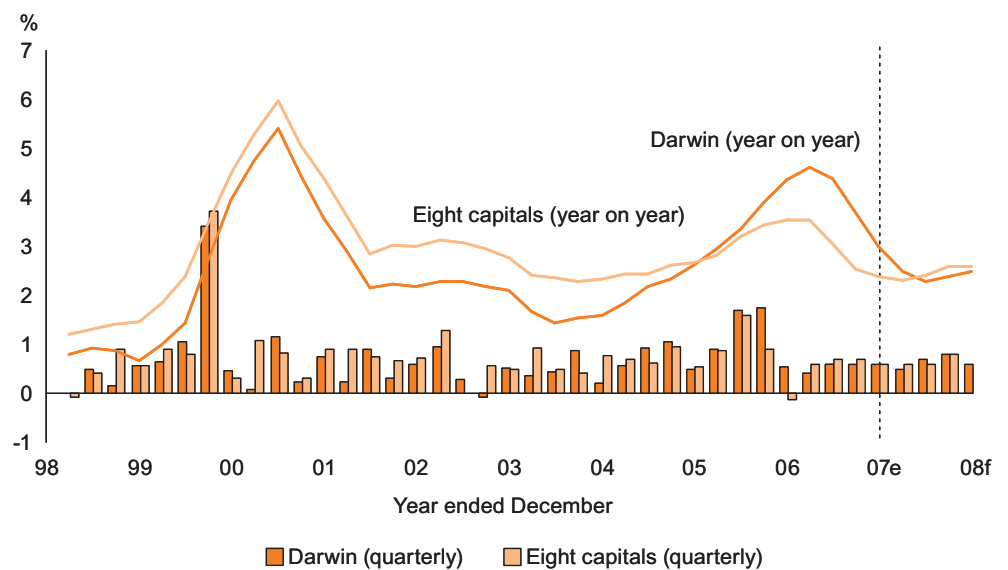
In 2006, Darwin's Consumer Price Index (CPI) increased by 4.4 per cent, compared to a 3.5 per cent increase nationally. However, inflation in the Territory is expected to fall significantly in 2007, largely reflecting moderating growth in housing prices and lower fuel and banana prices.

Darwin CPI growth of 3.0 per cent and 2.5 per cent is forecast for 2007 and 2008 respectively.

In 2006, the Territory's Wage Price Index increased by 3.9 per cent compared to 4.0 per cent nationally. Strong wages growth in the Territory and nationally over the past two years reflects the impact on wages growth of the tight labour market and skilled labour shortages, especially in construction, mining and health.

Wages growth in the Territory is expected to moderate in 2007 as the Alcan G3 refinery expansion is completed and growth in public sector wages is constrained by the Territory Government's public sector wages policy.

Chart 10.5: Consumer Price Index



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 6401.0.

## External Economic Environment

Demand for Territory goods both internationally and from other Australian states and territories is very important for the Territory economy, collectively accounting for 30 per cent of final demand.

Global growth is forecast by Consensus Economics to ease slightly to 4.7 per cent in 2007.

Economic growth is expected to be strong in China, India and many South East Asian countries.

Risks to the generally positive outlook include the possibility of inflationary pressures leading to further increases in interest rates and a greater than expected slowdown in the United States economy.

Consensus Economics forecasts Australian GDP growth of 2.9 per cent in 2007. Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts mineral and energy exports to increase by 20 per cent to about \$111 billion, with both value and volume increasing.

Negotiations are proceeding with China, Malaysia, Japan, Chile and South Korea for free trade agreements.

Table 10.2: GDP Growth  
(annual percentage change)

	GDP Growth (%)				
	2004	2005	2006	2007e	2008f
<b>North East Asia</b>					
China	10.1	10.2	10.5	9.6	9.4
South Korea	4.7	4.0	5.0	4.4	4.9
Japan	2.7	1.9	2.2	2.1	2.3
Taiwan	6.1	4.0	4.3	4.0	4.6
Hong Kong	8.6	7.3	6.5	5.1	5.0
<b>South East Asia</b>					
Philippines	6.0	5.1	5.0	5.4	na
Indonesia	5.1	5.6	5.4	5.9	5.9
Malaysia	7.2	5.2	5.9	5.4	5.7
Thailand	6.3	4.5	4.6	4.8	5.0
Singapore	8.7	6.4	7.7	5.2	5.5
<b>North America</b>					
United States	3.9	3.2	3.3	2.4	3.0
Canada	3.3	2.9	2.7	2.4	2.9
Eurozone	1.8	1.5	2.8	2.3	2.1
Russia	7.2	5.5	6.5	6.5	na
India	7.5	8.4	8.4	7.8	na
Australia	3.7	2.8	2.5	2.9	3.2
New Zealand	4.4	2.1	1.7	2.1	2.8

e: estimate; f: forecast

na: not available

Source: Consensus Economics Consensus Forecasts (India: financial year reported); Russia, Philippines: International Monetary Fund.

## International Trade

In 2006-07, the Northern Territory's international trade surplus (that is, exports of goods and services less imports of goods and services) is estimated to increase to \$2.6 billion, up from the \$179 million surplus in 2005-06.

The Territory's international merchandise trade balance (export of goods minus import of goods) increased to an estimated \$2.1 billion in 2006-07, up from the \$230 million deficit in 2005-06.

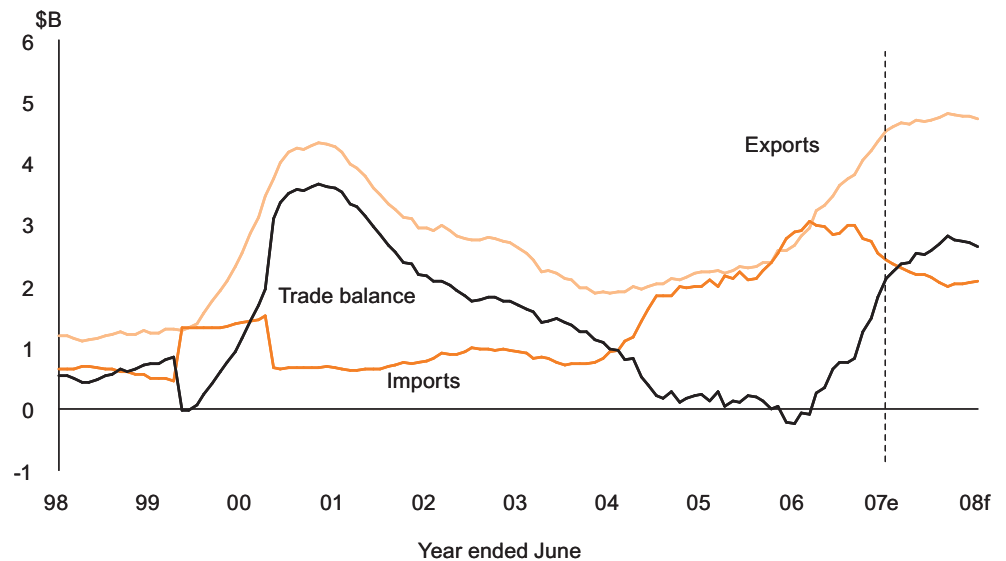
Mineral ores, mineral fuels and services related to international visitors (tourists and foreign defence personnel) dominate international exports in the Territory. In 2006-07, merchandise exports increased by 71 per cent to an estimated \$4.5 billion, largely due to increased global commodity demand and prices.

Merchandise exports are forecast to increase to an estimated \$4.7 billion in 2007-08, supported by a second full year of LNG production, manganese from Bootu Creek mine and alumina from Alcan's Gove refinery.

The major Territory imports are machinery and equipment (mostly industrial equipment for mining and construction activities) and refined fuels. In 2006-07, imports decreased by an estimated 16 per cent to \$2.4 billion, and are forecast to decline by a further 14 per cent to \$2.1 billion in 2007-08. The decline is primarily due to lower demand for machinery and transport equipment (particularly for major oil and gas projects), and a reduction in national aircraft imports via Darwin.

Forecast increases in merchandise exports and decreases in merchandise imports in 2007-08 are expected to result in a substantial increase in the merchandise trade surplus to \$2.6 billion.

Chart 10.6: Territory International Merchandise Trade (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS data service 5432.0.65.001.

## Mining and Energy

In terms of output, mining is the largest industry in the Territory, accounting for 25 per cent of gross state product (GSP) in 2005-06, compared to 7 per cent nationally. It is much less important in terms of employment, accounting for 1.9 per cent of total Territory resident employment according to ABS estimates.

Mining output is volatile as production is dominated by a small number of large projects. Global supply and demand conditions and the impact of exchange rate movements on competitiveness are key factors affecting production levels and prices.

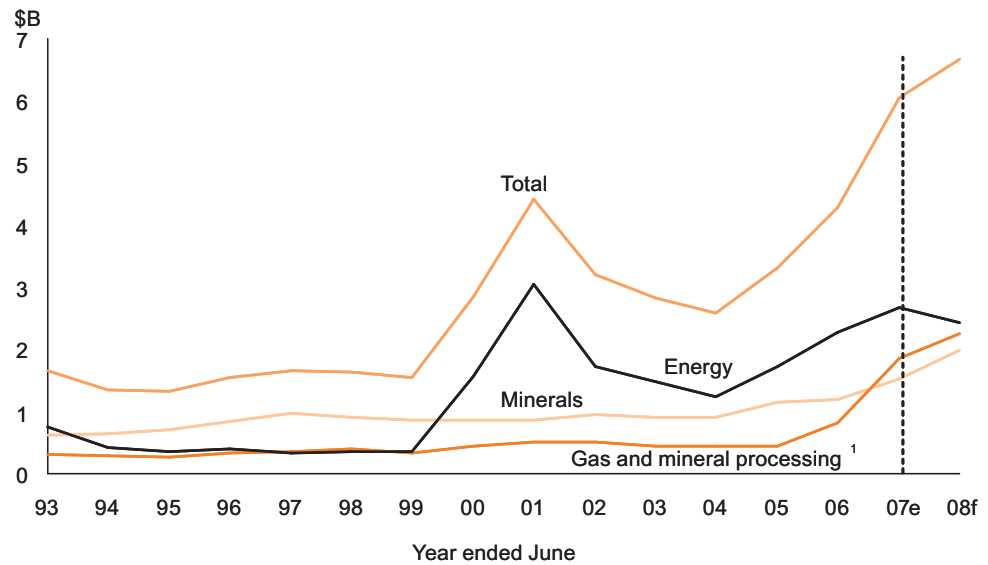
In recent years, declining output from the Laminaria-Corallina oilfield in the Timor Sea has been partially offset by increasing gas and condensate production from Bayu-Undan, as well as LNG production at the Wickham Point plant.

Mineral production and processing is expected to significantly increase in the next few years, with growth driven largely by increased production of alumina, gold and manganese.

Mineral and energy production is estimated to increase by 26.1 per cent to \$6.3 billion in 2006-07. More moderate growth of 6.6 per cent is expected for 2007-08.

In the medium to long term, the level of exploration is expected to continue to increase, supported by strong commodity prices and Northern Territory Government initiatives.

Chart 10.7: Value of Mining and Energy Production and Processing (nominal dollars)



e: estimate; f: forecast

<sup>1</sup> Includes alumina and LNG manufacturing.

Source: Northern Territory Treasury, Department of Business, Economic and Regional Development, Department of Primary Industry, Fisheries and Mines.

**Tourism** Tourism plays a significant role in the Territory economy, creating demand and generating employment in a range of different industries, including hospitality, retail trade and transport.

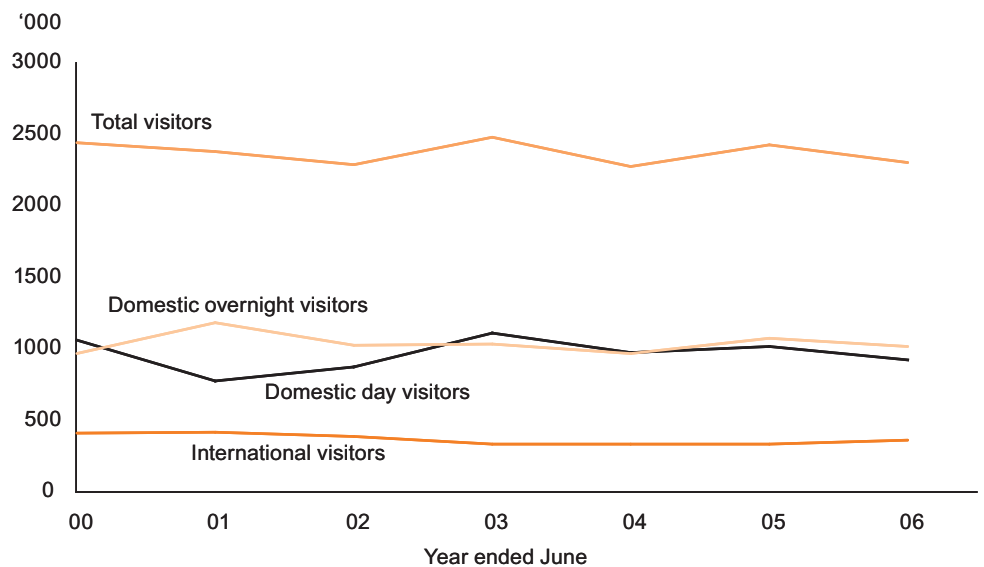
Since 2003-04, tourism's contribution to the economy has been measured by a new method which introduces concepts such as tourism gross value added and tourism consumption consistent with the national accounts framework.

In 2005-06, tourism gross value added was estimated at \$715.6 million, accounting for 7.2 per cent of Territory gross state product. Tourism consumption was \$2 billion in the Territory in 2005-06, which is 22 per cent of total consumption in the Territory.

Total visitor numbers declined moderately in 2005-06, however, higher visitor expenditure resulted in minimal change to total expenditure levels in 2005-06.

In 2006-07, tourism in the Territory is expected to be broadly positive, with the outlook for 2007-08 one of steady growth.

Chart 10.8: Territory Visitors



Source: Tourism Research Australia.

## Construction and Property

The Territory construction industry accounted for about 7 per cent of GSP on average over the past five years to 2005-06, and employed about 7.8 per cent of the workforce.

Projects such as the Alcan G3 refinery expansion at Gove have a huge impact on the value of construction work done in the Territory. They are significant both on a Territory and a national scale and can lead to substantial volatility in the value of construction work done.

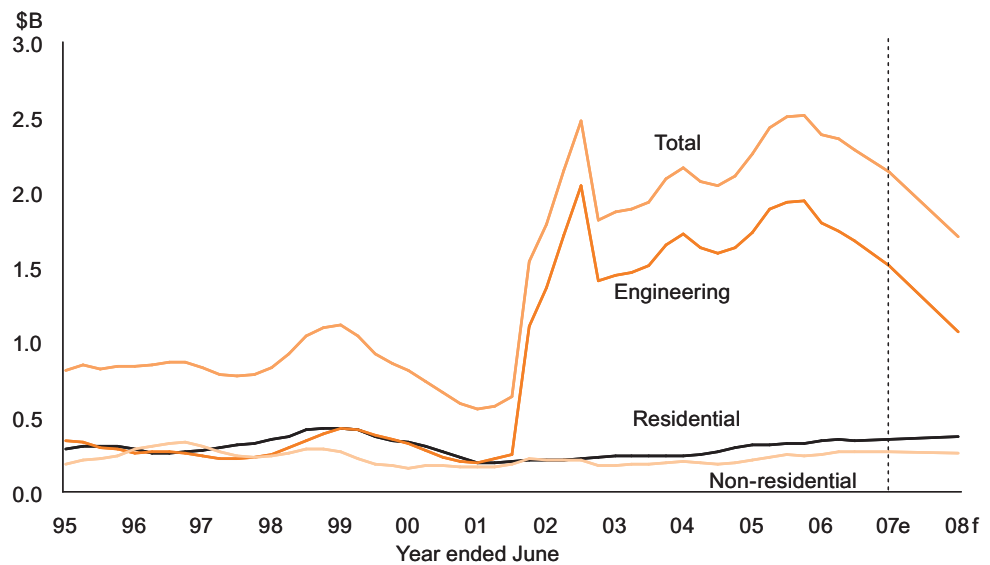
In 2005-06, total construction activity increased by 5.9 per cent to \$2.4 billion, supported by major resource-based engineering projects such as the LNG plant at Wickham Point and the \$3 billion Alcan expansion.

Declining construction growth in 2006-07 comes as investment for Bayu-Undan stage 2 (LNG plant and associated sub-sea pipeline) and the Alcan refinery expansion, the main drivers of engineering work done, are completed.

Northern Territory construction activity will contract substantially in 2007-08. However, total construction activity will remain at levels above historical averages over 2007-08 due in part to new mining and energy projects. This will be supplemented with significant construction activity associated with the Darwin Waterfront Development and roads, housing, education and hospital programs, and a sizeable defence infrastructure schedule.

Property markets have experienced strong growth in the past few years, with median house prices increasing by 21.8 per cent in 2006. The strength in residential property prices reflect stronger population growth in the Territory, as well as the flow-on effects from high commodity prices and the related resources boom.

Chart 10.9: Territory Construction Work Done (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos. 8752.0, 8782.0.65.001.

## Retail and Wholesale Trade

Retail trade and wholesale trade accounted for 6.1 per cent of Northern Territory GSP and 15.9 per cent of resident employment in 2005-06.

Territory retail turnover in 2006-07 is expected to exceed the national average and is estimated to grow by a strong 7.5 per cent. The commodity boom, strong construction activity and record low unemployment are expected to maintain consumer confidence at high levels and drive consumer spending, particularly discretionary spending.

Territory retail turnover is expected to remain at near record levels in 2007-08. However, retail turnover growth is expected to moderate to 2.0 per cent as growth comes off the high levels recorded since June 2006, and the lagged impact of the 2006 interest rate rises begins to take effect.

In the March quarter 2007, Territory consumers were the second most confident in the nation, with 61 per cent feeling confident about their financial prospects for the year ahead.

Chart 10.10: Consumer Sentiment (Net Balance Feeling Confident)



Source: Sensis Consumer Report March Quarter 2007.

## The Public Sector

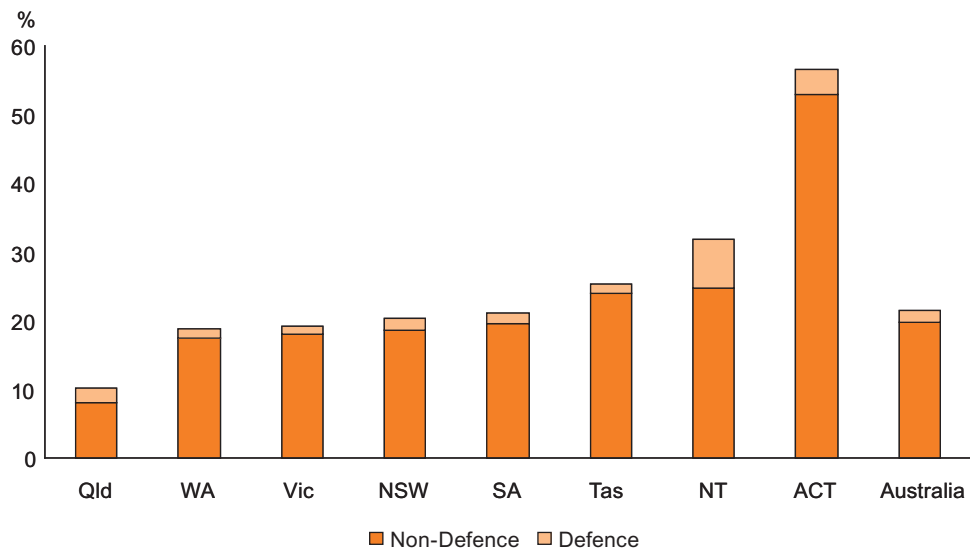
The public sector is a major contributor to the Territory economy, providing a wide range of services. It consists of Australian, Territory and local government activity, including defence.

In 2005-06, the non-defence public sector accounted for about \$3.3 billion, or 24.7 per cent of state final demand (SFD) – higher than most other jurisdictions. This sector is the largest employer in the Territory, accounting for about 27 per cent of total employment in 2005-06 (32 per cent when defence is included).

The size of the non-defence public sector relative to the size of the Territory economy has declined over the past two decades, reflecting the maturation and diversification of the Territory economy.

Details of the defence public sector are presented in the next section.

Chart 10.11: Public Sector Expenditure as a Proportion of SFD, 2005-06



Source: ABS Cat. No. 5206.0.

## Defence

The defence presence in the Territory has more than doubled since the early 1990s, with the number of defence personnel and their families increasing from 6223 in June 1992 to an estimated 12 935 in June 2007.

Of the total Australian permanent defence force personnel, 10 per cent are based in the Territory. Recurrent defence expenditure by the Australian Government in the Territory totalled \$954 million in 2005-06.

Major defence-related activities under way in the Territory include the \$170 million development of the new suburb of Lyons at Lee Point and the recent acquisition of land adjacent to Lyons (Muirhead). Defence activities nearing completion include the construction of the \$82 million Robertson Barracks 1st Aviation Complex and the \$65 million Bradshaw field training area near Timber Creek. In total, Defence will spend around \$275 million in 2007-08 on infrastructure.

The Territory's economy will benefit from local supply and support contracts including those for the new Armidale Class Patrol Boats, the Tiger helicopters and the replacement of field vehicles and trailers.

Table 10.3: Proposed Defence Infrastructure Program for 2007-08

Project	Estimated Total Value of Projects (\$ million)	Estimated Expenditure in 2007-08 (\$ million)
Redevelopment of Robertson Barracks	82.0	76.6
Upgrade of RAAF Darwin redevelopment stage 2	36.0	36.0
RAAF Base Tindal redevelopment stage 5 (includes the Airborne Early Warning and Control Facilities)	90.0	50.0
Bradshaw field training area	65.0	4.7
Lyons subdivision development	170.0	70.0
Darwin Naval Base extensions	19.2	13.9
Darwin and Gove foreign fishing vessel crematoriums	6.6	6.6
Mt Bundy training area urban terrain facilities	5.0	4.2
Maintenance contracts (less than \$5 million per project)	13.4	13.4
<b>Total</b>	<b>487.2</b>	<b>275.4</b>

Source: Northern Territory Treasury, Department of Defence Budget Statements 2006-07.

## Manufacturing

The Territory has a small and narrowly based manufacturing sector, dominated by alumina production at Alcan’s Gove refinery.

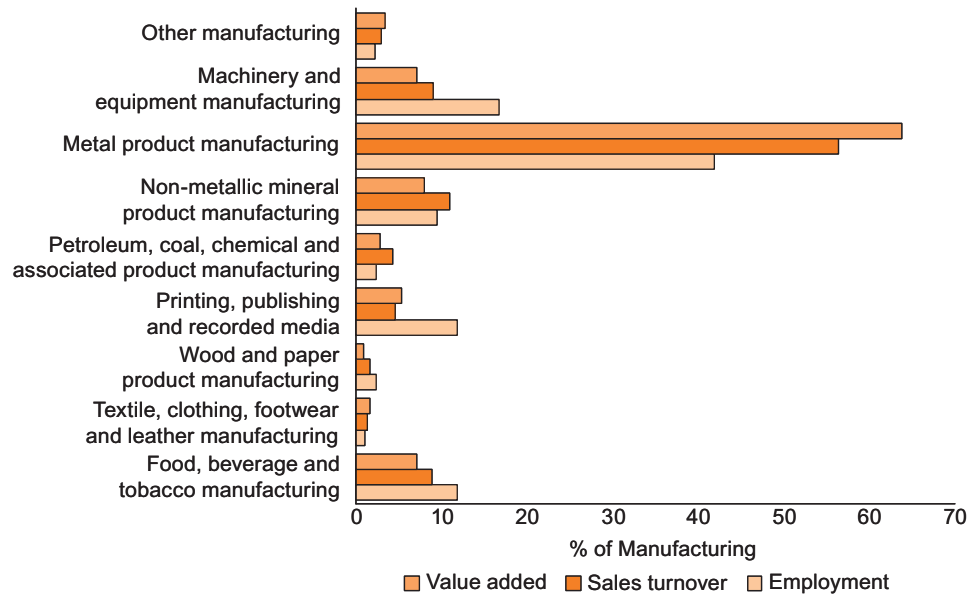
In 2005-06, manufacturing accounted for 6 per cent of GSP (\$685 million) and about 3 per cent of total employment.

Manufacturing production will increase significantly in 2007 with increased alumina production from the expanded Alcan refinery, and a full year of production from both the Wickham Point LNG plant and the new renewable fuels (biodiesel) facility.

Further increases are expected over the next two years with the completion of the helium plant at Wickham Point in 2008, and the condensate processing facility at East Arm in late 2009.

In the medium to long term, natural gas from the Timor Sea could be used as an input for gas-related manufacturing industries such as methanol, ethane, ammonia/urea fertilisers and various other petrochemicals, and as a cheaper energy source for mining-related value adding production.

Chart 10.12: Comparison of Territory Manufacturing, 2004-05



Note: 2004-05 is the latest year that data is available for employment, value added and sales turnover in manufacturing industries.

Source: Northern Territory Treasury, ABS Cat. No. 8221.0.

## Transport and Communication

In 2005-06, the transport and communication sector accounted for 5.4 per cent of GSP and almost 7 per cent of total Territory employment.

Transport-related activity accounted for about \$415 million or 3.4 per cent of Territory GSP in 2005-06 and about 5 per cent of total Territory employment. Activities related to all modes of the transport industry in the Territory show no sign of slowing.

The rail link is an increasingly important factor in growing export activity through the Port of Darwin, at which the scale and scope of facilities continues to improve.

2006 saw the start of annual shipments of LNG to Japan from the ConocoPhillips LNG processing and shiploading facilities at Wickham Point within Darwin Harbour.

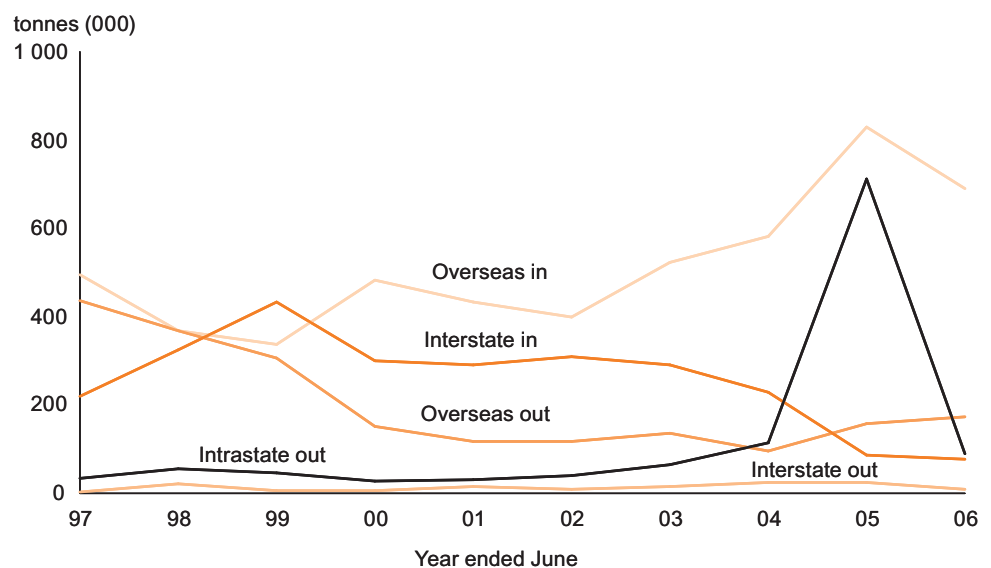
In 2007, the number of visits by passenger cruise ships is expected to increase and Tiger Airways and Qantas plan to increase their passenger capacity into and out of the Territory.

The communications industry incorporating telecommunications, television and radio networks accounted for about \$241 million or 2 per cent of Territory GSP in 2005-06 and for around 1 per cent of total Territory employment.

In 2006, Telstra launched the NextG mobile network, making broadband mobile connectivity available to 49 Territory locations, 41 of which are in remote areas.

During 2006, a new Telstra 150-staff national call centre began operations in Darwin and an existing 100-staff call centre was expanded.

Chart 10.13: Trade Through Port of Darwin



Note: The large increase in 'Intrastate out' in 2004-05 was armour rock used for the construction of the Bayu-Undan sub-sea gas pipeline.

Source: Department of Planning and Infrastructure, Darwin Port Corporation 2005-06 Annual Report.

## Rural Industries and Fisheries

Rural industries and fisheries accounted for 2.3 per cent of Territory GSP in 2005-06 and 3.1 per cent of resident employment.

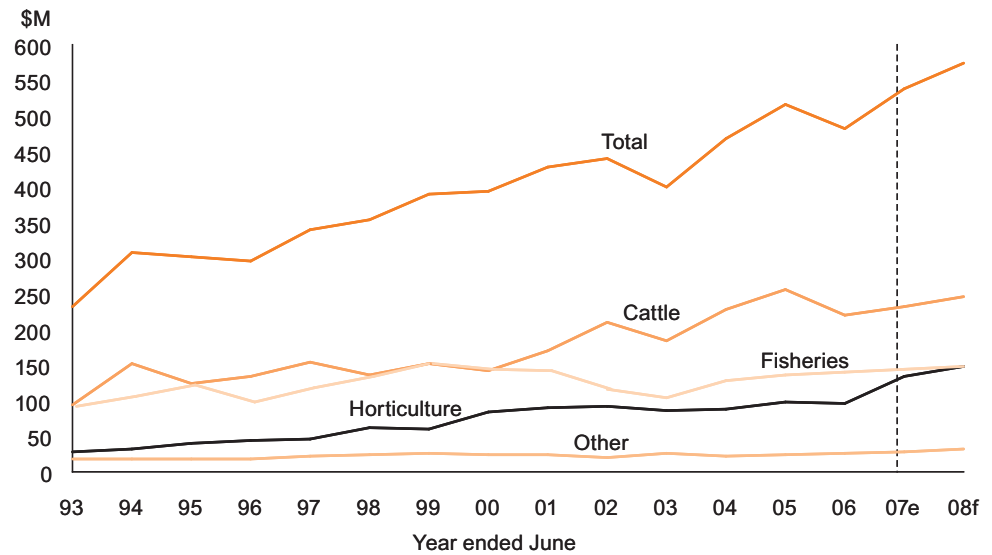
The Territory enjoys certain comparative advantages due to its capacity to supply markets with a range of early season and out of season produce, and benefits because of its environmentally clean image.

Output growth in the industry tends to be volatile due to variable weather conditions, while the exchange rate can have a significant effect on international demand. In the Territory, average annual output growth has been lower than broader economic growth over the past 10 years.

The value of rural industries and fisheries production is estimated to be \$539 million in 2006-07, an increase of 12 per cent from 2005-06 largely due to increased values of cattle and horticulture production.

The value of production is forecast to increase by 6.5 per cent to \$574 million in 2007-08 following further expected increases in cattle and horticulture production values.

Chart 10.14: Rural Industries and Fisheries Value of Production (nominal dollars)



e: estimate; f: forecast

Note: Horticulture data is only available for calendar years.

Source: Department of Business, Economic and Regional Development.